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## Legislative Internal Audit Reporting

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March 30, 2001

### MEMORANDUM

**TO:** Internal Auditors  
**FROM:** Leon E. Hank, Director  
Office of Financial Management  
**SUBJECT:** Legislative Internal Audit Reporting

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I am writing to communicate a new policy that will enhance current standards and uniformity in legislatively required reporting on internal audit activities.

Boilerplate language in recent appropriation acts requires departments to report on activities of the internal auditor for the prior fiscal year (Attachment I). In addition to this report, the Management and Budget Act (section 485(4)(b)) requires departments to submit a similar report of internal audit activity in connection with management's reporting of their biennially required internal control evaluation activities.

We have noted inconsistencies in the related boilerplate reporting requirements' associated report deadlines. Further, we believe the reporting requirements prescribed in the boilerplate result in a more useful report than the biennial report required in the Management and Budget Act.

Therefore, in order to establish uniformity and enhance usefulness in reporting, we are prescribing reporting on an annual basis that will satisfy the requirements established in both the appropriation acts and the Management and Budget Act. Further, we will work to remove the reporting requirements from future appropriation acts and instead, departments should refer to this policy memo.

The new reporting requirements are included in Attachment I. The Office of Financial Management will monitor overall reporting prescribed in this memo and will revise the requirements or definitions as necessary to maintain uniform and useful reporting.

If you have any questions regarding this memorandum, or details associated with the legislative internal audit reporting, please contact Rick Lowe, Director of the Technical, Audit, and Business Services Division, at (517) 241-0945.

cc: N. Duncan  
R. Lowe  
S. Stier  
Agency Designated Senior Officials

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# Legislative Internal Audit Reporting Requirements

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## Attachment I

Beginning with FY 2000 Appropriation Acts, a new reporting requirement was included in boilerplate. This requirement is consistent with and enhances usefulness of the report requirement prescribed in the Management and Budget Act section 485(4)(b).

The following prescribes the new **annual** report requirements:

*The department shall provide a report prepared by the department's internal auditor on the activities of the internal auditor for the prior fiscal year. This report shall include a listing of each audit or investigation performed by the internal auditor pursuant to sections 486(4) and 487 of the management and budget act 1984 PA 431, MCL 18.1486 and 18.1487. The report shall identify the proportion of time spent on each of the statutory responsibilities listed in section 485(4), 486(4), and 487 of the management and budget act, 1984 PA 431, MCL 18.1485, 18.1486 and 18.1487, and the time spent on all other activities performed in the internal audit function.*

*The first report is due May 1, 2001 and biennially thereafter on odd-numbered years (e.g., 2001). Reports due on odd-numbered years, beginning 2001, shall accompany other required reports in connection with management's evaluation of their internal control structure. All reports submitted on odd-numbered years shall include a unique distribution to the following:*

- *Governor*
- *Auditor General*
- *Senate and House Appropriations Committees*
- *Senate and House Fiscal Agencies*
- *Director of DMB*
- *State Budget Director*

*On even-numbered years (e.g., 2002), the report shall be submitted to the State Budget Director and will not be accompanied with any other required reports.*

The following sections prescribe the format of the required report Attachment II in "pdf" and definitions Attachment III "pdf" for each of the report categories.

## Schedule of Internal Audit Activities Fiscal Year 2000

List of each audit or investigation pursuant to Sections 486(4) and 487. Please note the type of audit (i.e., financial or performance).

Statutory Responsibility	Proportion of Time
Internal Control Evaluations – Responsibilities with Biennial Reporting	
Financial Audits (internal)	
Financial Audits (external)	
Economy and Efficiency, and Performance Audits	
Other Audit and Investigative Activities	
Serious or Flagrant Activities	
Sub-recipient Monitoring	
Professional Development & Administrative Support Activities	
Other	
Total	100%

Comments

cc: Governor John Engler  
Senate Appropriations Committee  
Senate Fiscal Agency  
DMB Director

Thomas H. McTavish, Auditor General  
House Appropriations Committee  
House Fiscal Agency  
State Budget Director

**Statewide Internal Audit Activities Reporting Categories    Attachment III**  
**For the Fiscal Year Ended September 30, 2000**

<b>Title</b>	<b>Description</b>	<b>Reference to Law</b>	
<u>Internal Control Evaluations – Responsibilities with Biennial Reporting</u>	<u>Review management evaluation practices to determine that they are in accordance with guidance set forth in the “General Framework”, consult management in the conduct of evaluations, and follow-up false information connected with evaluation activities.</u>	18.1485(4) 18.1486(4)(a)	<ul style="list-style-type: none"> <li>▪ F</li> <li>▪ b</li> <li>▪ C</li> <li>▪ I</li> <li>▪ e</li> </ul>
<u>*Financial Audits (Internal)</u>	<u>Audit the reliability and integrity of agency’s financial statements, schedules or other operational data and determine compliance with applicable reporting criteria (accounting/ or other reporting standards) and other laws, rules, regulations and management directives internally managed.</u>	18.1486(4)(b) 18.1486(4)(e)	<ul style="list-style-type: none"> <li>▪ I</li> <li>▪ a</li> <li>▪ A</li> <li>▪ s</li> <li>▪ r</li> <li>▪ A</li> <li>▪ o</li> </ul>
<u>*Financial Audits (External)</u>	<u>Audit the activities of contractors and/or grants (to external entities) to determine the reliability and integrity of financial data and determine compliance with reporting criteria (accounting and other reporting standards) and other laws, rules, regulations.</u>	18.1486(4)(b) 18.1486(4)(e)	<ul style="list-style-type: none"> <li>▪ i</li> <li>▪ F</li> <li>▪ a</li> </ul>
<u>*Economy and Efficiency, and Performance Audits</u>	<u>Audits designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function. Performance is measured against the activity’s mission, goals and objectives – established by law, management directives, etc.</u>	18.1486(4)(c) 18.1486(4)(d)	Audit <ul style="list-style-type: none"> <li>▪ F</li> <li>▪ C</li> <li>▪ F</li> </ul>
<u>Other Audit and Investigative Activities</u>	<u>Conduct other audit and investigative activities as assigned by the department head. These activities generally would not be supported by the preparation of audit workpapers and/or a formal audit report – things required by professional standards to constitute an “audit.” These activities do not include temporary assignments to perform management responsibilities.</u>	18.1486(4)(c) 18.1486(4)(f) 18.1486(4)(g)	<ul style="list-style-type: none"> <li>▪ A</li> <li>▪ F</li> <li>▪ i</li> <li>▪ F</li> <li>▪ d</li> </ul>
<u>Serious or Flagrant Activities</u>	<u>Report to the department head if the internal auditor becomes aware of particularly serious or flagrant problems, abuses, or deficiencies relating to the administration of programs or operations of that principal department or its state agencies.</u>	18.1487	<ul style="list-style-type: none"> <li>▪ F</li> <li>▪ o</li> <li>▪ s</li> </ul>
<u>Sub-recipient Monitoring</u>	<u>Monitor activities of sub-recipients who receive federal funds, to determine that they have expended program funds in accordance with requirements set forth in OMB Circular A-133.</u>	18.1487(4)(e) 18.1487(4)(g)	<ul style="list-style-type: none"> <li>▪ C</li> <li>▪ S</li> </ul>
<u>Professional Development &amp; Administrative Support Activities</u>	<u>Attendance at training opportunities to develop employees’ professional skills and to meet professional education requirements. Also includes the varied administration activities that indirectly support the audit department’s activities.</u>	Implied	<ul style="list-style-type: none"> <li>▪ A</li> <li>▪ C</li> <li>▪ T</li> <li>▪ T</li> <li>▪ C</li> </ul>
<u>Other</u>	<u>Anything outside the statutory responsibilities set forth in Sections 485(4), 486(4), and 487 of the DMB Act of 1984, PA 431 as amended.</u>	N/A	Perfo <ul style="list-style-type: none"> <li>▪ S</li> <li>▪ S</li> </ul>

\* Both Financial and Performance audits generally require an assessment of compliance with applicable laws, rules, regulations, policies, and management directives. Definition of these types of audits is based on definitions set forth in the “Yellow Book” (Generally Accepted Government Auditing Standards).

**Note: Professional development should be reported. The Internal Auditor should disclose via footnote or some other means if this associated effort is included (allocated) in the other report categories.**